

## A study of Good and service tax and its impact on electronic products in India

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### INTRODUCTION

The term “tax” is extracted from Latin word “taxare” means to estimate. A tax is an enforced contribution, exacted pursuant to legislative authority. According to Abhishek Jha “A good tax system is characterized by a high responsiveness of tax revenue to change the income of public organisations or national income; the technique of measuring this response is tax elasticity and tax buoyancy”. Tax policy forms an important part of development process in a developing economy. The total tax revenue is rely upon three terms i.e. tax rate, tax base, and national income. According to the IMF, Indian tax system is characterized by high dependence on indirect taxes, low average effective tax rates and tax productivity and large tax induced distortions on investment and financing decisions. A tax policy is administratively feasible when its enforcement does not cost too much. At the same time administrative feasibility should not be an excuse to compromise the original objective.

The Fundamental objective of collecting Tax is to raise government revenue for development and welfare programs in the country. The Secondary objectives is to maintain economic equalities by imposing tax to the income earners and improving the economic condition of the general people, to encourage the production and distribution of the products of basic needs and discourage the production and harmful ones, to discourage import trade and protect the national industries. India being one of the largest democracies has a very complex taxation structure featured with a large number of taxes, excessive and complex tax literature (rules and laws), and inefficient administration. According to the white paper published by Indian government on black money in 2012, Govt. cannot deny the presence of parallel economy in the country. The amount of this parallel economy is nearly equal to the GDP.

### OBJECTIVE AND METHODOLOGY OF THE STUDY

The objective of this paper is to understand current trends in Electronics Sector, understand the concept of GST, to show how GST (good and service tax) is affect the growth in Electronic Industry in India with implementing GST by opting the methodology of collecting data from various sources such as Govt. reports, articles by experts, journals and websites.

### CURRENT TREND IN ELECTRONIC SECTOR

Electronic exports from India reached USD 6.1 billion in FY15, over FY07–15, exports from the sector (CAGR: 10.2 per cent). Consumer Electronics have shown a positive growth over the years with the growth in the production of LCD/LED TVs rising to almost 40 per cent in 2013 – 14 as compared to a mere 11 per cent in 2012 - 13. Technological improvements and competitively cost effectiveness are main drivers for demand of Indian electronics products abroad.



Figure 1. Electronics Exports in India till September 2015

The electronics market of India is one of the largest in the world and is anticipated to reach US\$ 400 billion in 2022 from US\$ 69.6 billion in 2012. The market is projected to grow at a compound annual growth rate (CAGR) of 24.4 per cent during 2012-2020. Total production of electronics hardware goods in India is estimated to reach US\$ 104 billion by 2020. The communication and broadcasting equipment segment constituted 31 per cent, which is the highest share of total production of electronic goods in India in FY13, followed by consumer electronics at 23 per cent.

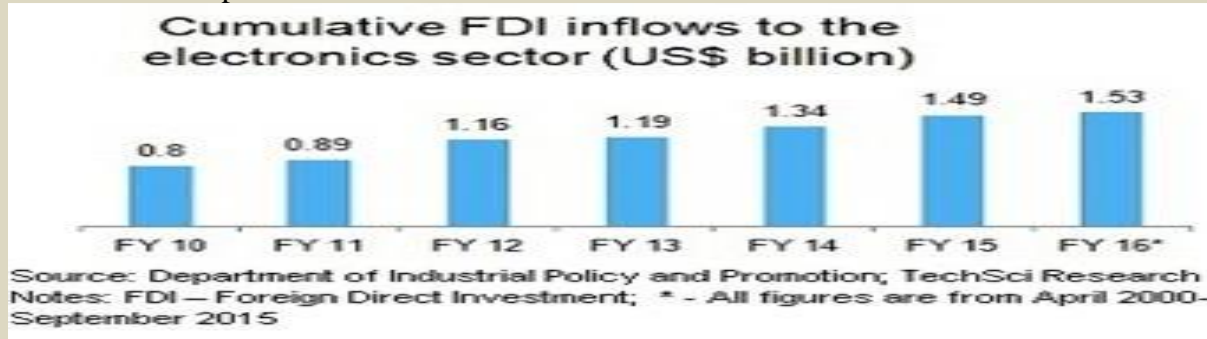


Figure 2. Cumulative FDI flows in the Electronics Sector

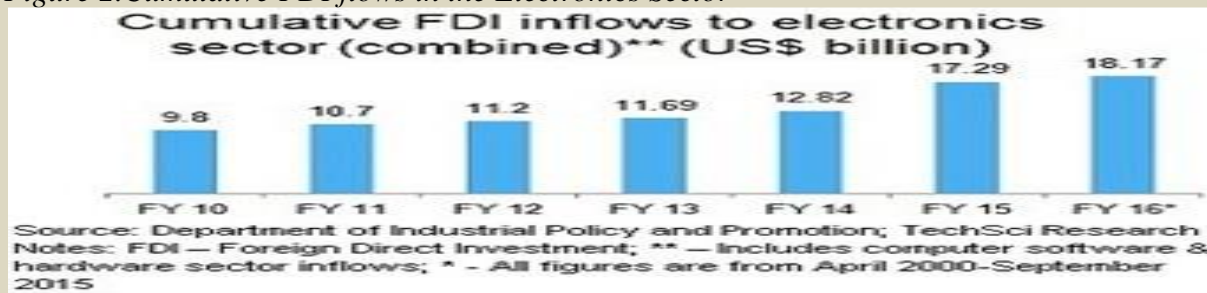


Figure 3. Cumulative FDI flows in the Electronics Sector

Electronic exports from India were expected to reach US\$ 8.3 billion in FY13, a CAGR of 27.9 per cent during FY07–12. Technological improvements and competitively cost effectiveness are main drivers for demand of Indian electronics products abroad. The Government of India has set up Electronic Hardware Technology Parks (EHTPs), Special Economic Zones (SEZs) and a brought about a favorable climate for foreign direct investment (FDI). It has also increased liberalization and relaxed tariffs to promote growth in the sector. In addition, the government gave its green signal to the Modified Special Incentive Package Scheme (MSIPS) under which the central government will be offering up to US\$ 1.7 billion in benefits to the electronics sector in next five years. The growing customer base and the increased penetration in consumer durables segment has provided enough scope for the growth of the Indian electronics sector. Also, digitization of cable could lead to increased broadband penetration in the country and open up new avenues for companies in the electronics industry.

## CONCEPT OF GST

Goods and Service Tax is a comprehensive tax levy on manufacture, sale and consumption of goods and services at National Level. GST is a part of proposed tax reforms in India having an extensive base that instigate the applicability of an efficient and harmonized consumption tax system. GST has been commonly accepted by world and more than 140 Countries have acknowledged the same. Generally the GST ranges between 15% - 20% in most of the countries GST is similar to the VAT system which is a value added tax on goods with an Input Tax Credit (ITC) mechanism but GST also includes services. Thus GST would be applicable on supply of goods and services as against the present concept of tax. GST is a value

added tax on goods and services that is paid by the final consumer while the retailer will be taking credit of the tax he has paid while buying goods for retailing. So in this all the services of retailer or the chain behind him is taxed apart from the actual value of production of that good. The GST Constitution (One Hundred and Twenty Second Amendment) Bill, 2014 was introduced on December 19, 2014 and passed on May 6, 2015 in the Lok Sabha and yet to be passed in the Rajya Sabha. The Bill seeks to amend the Constitution to introduce Goods and Services tax vide proposed new article 246A. The introduction of such a tax in Indian Economy is a concrete step of Government of India as one of the biggest taxation reforms and is all set to integrate State economies and boost overall growth. It will also help in increasing the GDP of the country by 1-1.5%. Such a tax system has already been implemented worldwide around 150 countries (France being First in 1954) and India is catching up with the global trends.

The goods and services tax (GST) is projected at creating a single, unified market that will benefit both corporate and the economy. It is an indirect tax that will lead to the abolition of all other taxes such as Octroi, central sales tax, state-level sales tax, excise duty, service tax, and value-added tax (VAT). Both the state and the central governments will impose GST on almost all goods and services produced in India or imported into the country. Direct taxes, such as income tax, corporate tax and capital gains tax will not be affected by GST. It will simplify India's tax structure, broaden the tax base, and create a common market across states. This will lead to increased compliance and increase India's tax-to-gross domestic product ratio. According to a report by the National Council of Applied Economic Research, GST is expected to increase economic growth by between 0.9 per cent and 1.7 per cent. Exports are expected to increase by between 3.2 per cent and 6.3 percent, while imports will likely raise 2.4-4.7 per cent, the study found. Considering these major developments, we can say that very soon GST in India will be a dream comes true. At the same time, it is ironical to note that the original date was April 2010 for implementing GST in India but it took long 6 years to implement by making a political will to build a uniform taxed regime in India and now date for its implementation is April 2017.

#### Benefits of GST

GST has been envisaged as an efficient tax system, neutral in its application and distributionally attractive. The advantages of GST are:

- Wider tax base, necessary for lowering tax rates and eliminating classification disputes
- Elimination of multiplicity of taxes and their cascading effects
- Rationalization of tax structure and simplification of compliance procedures
- Harmonization of center and state tax administrations, which would reduce duplication and compliance costs
- Automation of compliance procedures to reduce errors and increase efficiency

The GST structure would follow the destination principle. Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-state transactions within India, State tax would apply in the state of destination as opposed to that of origin.

#### **TAX SYSTEM ON ELECTRONICS**

Electronics industry is among the largest and fastest growing manufacturing Industry in the world. The total Electronics Equipment Production of the world during the year 2014 was estimated to be around US\$ 2.0 trillion. The maximum production was that of Computer Systems and Peripherals (26.6 percent) followed by communication equipment (21.7 percent), Consumer Electronics (12.6 percent), Instruments (10.7%), industrial equipment (9.5 percent) and Equipment for Government / Military (8.8 percent). Over the years, production bases have shifted from USA and EU to Asia and the latter's share in global production has increased to over 60%. The current system of taxation on electronics and other goods is characterized by

multiplicity of taxes on goods and services. Excise duty on manufacture, customs duty on imports and exports, service tax on services are levied by the Central Government. On the other hand, VAT, Entry Tax, Purchase Tax, Octroi and duty on liquor are levied by the State Governments. Apart from this, there are various other taxes /levies such as cesses, surcharges, entertainment tax, luxury tax, stamp duty and road tax. India's total Electronics Hardware Production in 2014-15 is estimated at US\$ 32.46 billion. This represents a share of about 1.5 percent in world electronic hardware production. The production, export and import figures of Indian Electronics Industry for FY 14-15 are summarized in Table 1.

S. No.	Parameter	Value (US \$ Billion)
1	Production (Revenues)	32.7
2	Exports	6.0
3	Imports	36.9

*Table 1: Production, Exports and Imports of Electronics Hardware by India, 2014-15 (Source-CII & ESC)*

According to Table 1, domestic consumption of Electronic Hardware in 2014-15 was \$63.6 billion. Imports accounted for 58% of this consumption. Electronics Industry is conventionally divided into six segments. Table 2 provides the production (revenue) share of each of these segments. The total production of Electronics & IT-ITeS Industry is estimated to be around Rs. 933,550 Crore with a growth of 13.5% during 2014-15 compared to Rs. 822,530 crore achieved in 2013-14. The production and growth of the Indian Electronics and IT-ITeS industry, since 2009-10 is given below:

<b>Year</b>	<b>Production</b>	<b>Growth (%)</b>
2009-10	415520	11.6
2010-11	476180	14.6
2011-12	567835	19.2
2012-13	681063	19.9
2013-14	822530	20.8
2014-15*	933550	13.5



Table 2. Electronics and ITES Productions value s in crores

\*Estimates based on inputs from Industry Associations, Ministries & other Organizations

Of the total value of production in the Electronics and IT &ITeS sector, production of Electronics hardware is estimated to have grown by 5.5% in 2014-15 to INR 190,366 crore in compared to INR 180,454 crore in 2013-14. The production of IT and ITeS has been estimated to be of the order of INR 743,184 crore in 2014-15 as compared to 642,076 crore in 2013-14 thereby marking a growth of 15.8% during the year. Therefore, the overall growth of this industry, which is at 13.5%, has largely been sustained by the relatively higher growth in the Software and services which are largely export driven and also dominate the electronics and IT sector.

#### Electronics & IT Exports

During the year 2014-15, electronics and IT exports are estimated to be about INR 648,836 crore as compared to INR 573,996 crore in 2013-14, i.e., a growth of about 13% as against 25.8% during the previous year. The total value of software and services exports are estimated to be INR 612,144 crore in 2014-15 as compared to INR 527,292 crore in 2013-14, i.e., a growth of about 16 percent, whereas, the estimated value of electronics hardware export is INR 36,692 crore in 2014-15 as compared to INR 46,704 crore in 2013-14 registering a negative growth of 21.43%.

#### THE NEED FOR GST

Suppose Person A sells goods to Person B and charges sales tax; then Person B re-sells those goods to Person C after charging sales tax. While Person B was computing his sales tax liability, he also included the sales tax paid on previous purchase, which is how it becomes a tax on tax.



Figure 3. price hike of Goods according to current tax system

(Source-[www.quora.com](http://www.quora.com))

This was the case with the sales tax few years ago. At that time, VAT was introduced whereby every next stage person gets credit of the tax paid at earlier stage. This means that when Person B pays tax of Rs. 11, he deducts Rs. 10 paid earlier. Similar concept came in Excise Duty and Service Tax also, which is called Central vat credit scheme. To a huge extent, the problem of cascading effect of taxes is resolved by these measures. However, there are still problems with the system that have not been solved till date.

#### HOW GST WILL IMPACT THE ELECTRONIC SECTOR

Stating that present tax system is hindering its progress, the electronics manufacturing industry has demanded implementation of GST in the next financial year. Stating that present tax system is hindering its progress, the electronics manufacturing industry has demanded implementation of GST in the next financial year. GST is a consumption based tax/levy. It is based on the "Destination principle." GST is applied on goods and services at the place where final/actual

consumption happens. GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax. GST is going to be collected at point of Sale.



Figure 3. Applicability and mechanism of GST

With increasing penetration across consumer products, especially in semi-urban and rural markets, the Indian electronic products industry is expected to grow at a compound annual growth rate (CAGR) of 10.1 per cent to reach \$75 billion by 2017 from \$61.8 billion in 2015, these figures can be improved with implications of GST are some

- GST will eliminate multiple levies. It will also allow deeper penetration of digital services.
- IT companies can have several delivery centers and offices working together to service a single contract.
- With GST, companies might require each centre to generate a separate invoice to every contracting party. Duty on manufactured goods is going to go up from existing 14-15% to 18%, which means the cost of electronics from mobile phones to laptops- will rise.
- Handset prices likely to come down/even out across states. Manufacturers are also likely to pass on to consumers cost benefits they will get from consolidating their warehouses and efficiently managing inventory. For handset makers, GST will bring in ease of doing business as they may no longer need to set up state specific entities and transfer stocks to them and invest heavily into logistics of creating warehouses in each state across the country.
- If the current indirect taxes are less than the proposed GST, then it will raise up the prices of goods like smartphones, tablets, laptops etc.. However, in the long run, it will eventually start benefitting the common man with reduction and levying out various taxes on such goods. Additionally, it will smoothen up the movement of goods across the country as well as beyond country borders.
- Sectors which are expected to see a substantial increase in exports include textiles and readymade garments, beverages, industrial machinery for food and textiles, transport equipment other than railway equipment, electrical and electronic machinery, and chemical products.
- As GST is expected to get rid of the country's complicated indirect tax regime, one can expect the cost of most consumer electronics to come down, given that additional state taxes such as entry, octroi, etc will be done away with. Unfortunately, that may not be the case for our beloved smartphones, tablets and laptops.

□ Currently, Duty and VAT for imported smartphones comes around to 12.5% to 12.8%. If the GST rate is pegged at 18%, it will naturally up the cost of our smart devices. One should also remember that mobile devices were already set for a price rise, post the duty rejig in the 201617 Budget. If an 18% GST is implemented, it can make a Rs. 10,000 smartphone cost Rs. 11,800, a Rs. 20,000 smartphone cost Rs. 23,600, and so on. So expect your iPhones to become even more expensive, unless the company actually starts manufacturing in India, which is also a near possibility.

□ Manufacturers under the Make In India scheme are still wading grey waters when it comes to GST. As per the Fast Track Force, tasked with boosting local manufacturing of mobile handsets, the Government should keep with the current duty structure that makes imported devices more expensive than locally produced handsets. Although, it should be noted that because the GST proposes minimal exemptions, the differential duty structure between imported smartphones versus locally manufactured smartphones will get warped.

### **CONCLUSION AND FUTURE WORK**

The indirect tax cost on most goods is currently on the higher side. This is for the reason that most electronic goods attract an excise duty of 12.5% and a VAT of 12.5% to 15% depending on the State. Further, there are numerous cascading of taxes on account of levy of CST, input tax credit retention under the VAT laws, levy of entry tax/ Octroi/ local body tax, etc. till the time the product reaches the end customer. In this paper we successfully studied the concept of GST, Drawbacks of current tax system, and the GST as a factor that affect the electronic sector. In Future we analyses the actual impact of GST after implementation has begun.

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